

# Roth 401(k) and Tips Tax Exempt and Government Entities Employee Plans 2006 IRS Nationwide Tax Forum

# What is a Roth 401(k)?

- EGTRRA – It's not another SUV
  - Sunrise (1/1/2006) and Sunset (12/31/2010)?!
- Contributions (After-tax)
  - Separate Accounting Required
- Distributions (Tax-free)



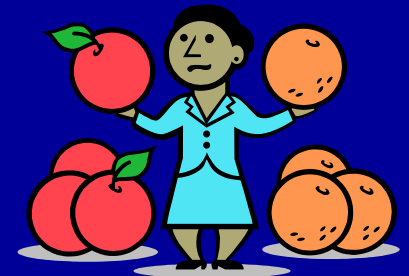
# Traditional vs. Roth 401(k)

- Traditional 401(k)
  - Deferrals: Pre-tax
  - Distributions: Taxable
- Roth 401(k)
  - Deferrals: After-tax
  - Distributions: Tax-free



# Roth IRA vs. Roth 401(k)

- No Income Limitations w/ Roth 401(k)
- Higher Contribution Limits w/ Roth 401(k)
  - Roth IRA – \$4K (2006, under age 50)
  - Roth 401(k) - \$15K (2006, under age 50)
- No Conversions Allowed
- Distributions



# Who's Considering a Roth 401(k)?

(Pay Now or Pay Later?)



- Young Employees - Maybe
- High-Income Employees - Possibly
- Low-Income Employees - Perhaps
- I see a lower or a higher tax bracket in your future
- But I don't want the money - yet

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# Steps to Add a Roth Feature

- What Steps Do I Take?
  - Amend the Plan Document
  - Tell the Employees
  - Plan Administration



# Show Me the Money!



- The 5-Year, Not the 5-Second Rule
- Hardship Distributions
- Return of Excess Contributions
- Required Minimum Distributions

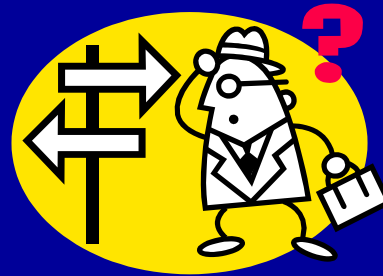
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# Rollover and Fetch

- Direct Rollovers - Don't Mix and Match
- Indirect Rollovers - Caution Ahead
- Roth to Roth - A One-Way Street





# Traditional 401(k) Tips



- EP Compliance Trends and Tips
- Correction Programs
- A Little Help Please: More Resources @ [www.irs.gov/ep](http://www.irs.gov/ep)

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# SEP and SIMPLE IRA Tips



- EP Compliance Trends and Tips
  - Special Limited Relief for SIMPLE IRA Non-Amenders
- Correction Programs
- A Little Help Please: More Resources @ [www.irs.gov/ep](http://www.irs.gov/ep)

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# Retirement Plan Assistance



- [www.irs.gov/ep](http://www.irs.gov/ep)
  - Includes Roth 401(k) FAQs
- (877) 829-5500:  
Customer Account Services
- [RetirementPlanQuestions@irs.gov](mailto:RetirementPlanQuestions@irs.gov)
- Newsletters

# Roth 401(k) and Tips

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Comparison of Roth 401(k), Roth IRA, and Traditional 401(k) Retirement Accounts			
Characteristic	Designated Roth 401(k) Account	Roth IRA	Traditional, Pre-Tax 401(k) Account
<b>Contributions</b>	Designated Roth employee elective contributions are made with <b>after-tax</b> dollars.	Roth IRA contributions are made with <b>after-tax</b> dollars.	Traditional, pre-tax employee elective contributions are made with <b>before-tax</b> dollars.
<b>Income Limits</b>	No income limitation to participate.	Income limits: married \$160,000/single \$110,000 modified AGI.	Same as Designated Roth 401(k) Account. No income limitation to participate.
<b>Maximum Elective Contribution</b>	Aggregate* employee elective contributions limited to \$15,000 in 2006 (\$20,000 for employees 50 or over).	Contribution limited to \$4,000 in 2006 (\$5,000 for employees 50 or over).	Same aggregate* limit as Designated Roth 401(k) Account
<b>Taxation of Withdrawals</b>	Withdrawals of contributions and earnings are <u>not</u> taxed provided it's a <b>qualified distribution</b> -the account is held for at least 5 years and made: <ul style="list-style-type: none"> <li>• On account of disability,</li> <li>• On or after death, or</li> <li>• On or after attainment of age 59½.</li> </ul>	Same as Designated Roth 401(k) Account and can have a qualified distribution for a first time home purchase.	Withdrawals of contributions and earnings <u>are</u> subject to Federal and most State income taxes.
<b>Required Distributions</b>	Distributions must begin no later than age 70½, unless still working and not a 5% owner.	No requirement to start taking distributions while owner is alive.	Same as Designated Roth 401(k) Account.
<p>* This limitation is by individual, rather than by plan. Although permissible to split the annual employee elective contribution between designated Roth contributions and traditional, pre-tax contributions, the combination cannot exceed the deferral limit - \$15,000/\$20,000 in 2006.</p>			